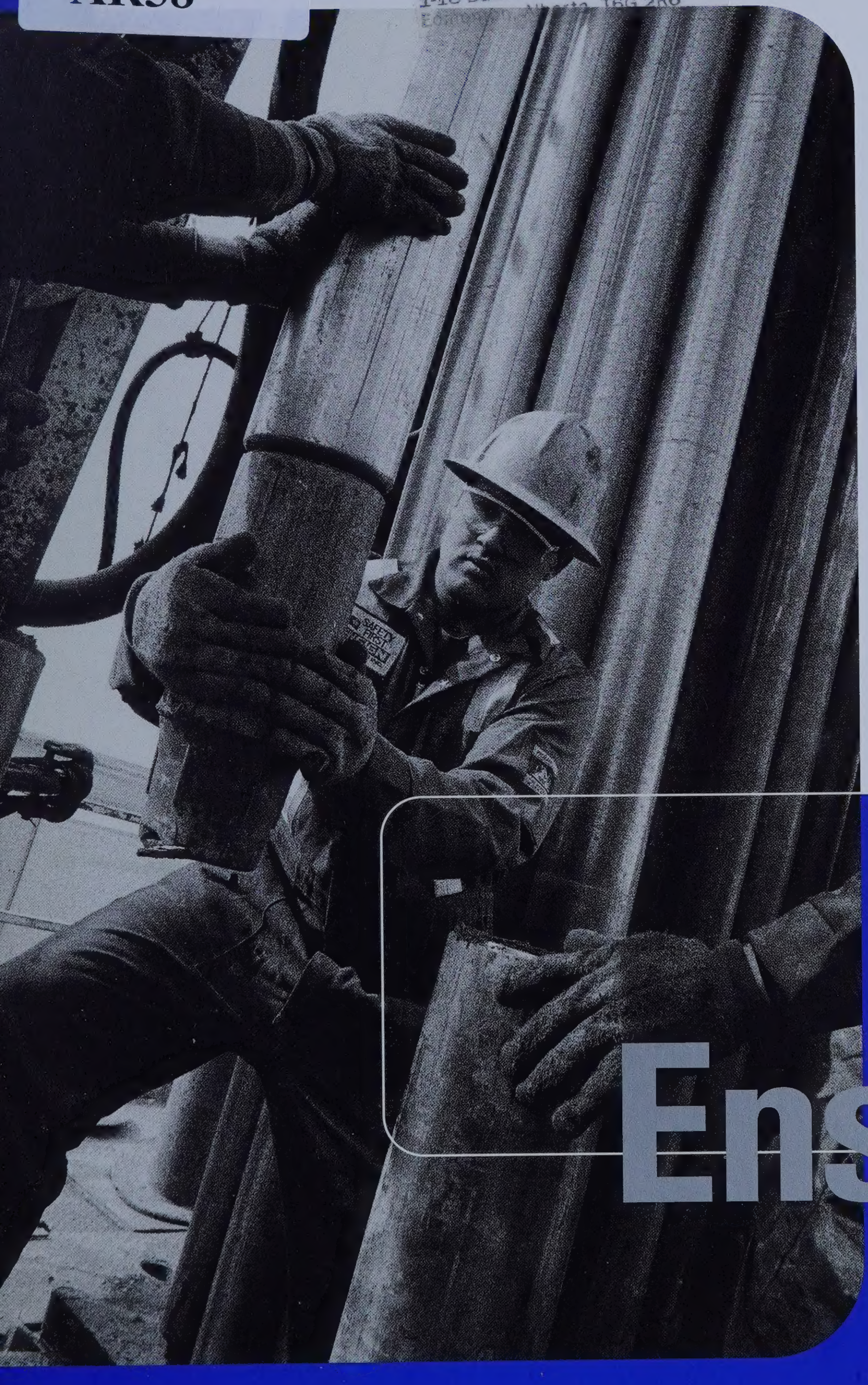
AR58

1-18 Business Building



97

Ensign

Ensign Resource Service Group Inc.

1997 Annual Report

Ensign

Ensign Resource Service Group Inc. is a growth-oriented company that provides services in contract well drilling and well servicing to the oil and natural gas industry. With headquarters in Calgary, Alberta, the Ensign Group is an industry leader in well drilling and servicing throughout western Canada, and in well drilling within the Rocky Mountain region of the United States. The Ensign Group is the public holding company for five divisions – Ensign Drilling, Tri-City Drilling, Caza Drilling Inc., Rockwell Servicing and Leyen Oilwell Servicing.

Since its incorporation in 1987, the Company has accumulated an extensive rig fleet characterized by flexibility and mobility for meeting the challenging demands of the oil and natural gas industry. The Ensign Group has also contributed to advancements in well drilling and servicing through the innovative use of technology, and has an established reputation for the highest safety standards and environmental stewardship.

The Ensign Group's common shares trade on The Toronto Stock Exchange under the symbol "ESI".

ENSIGN RESOURCE SERVICE GROUP INC.

DRILLING

Ensign Drilling | Tri-City Drilling | Caza Drilling

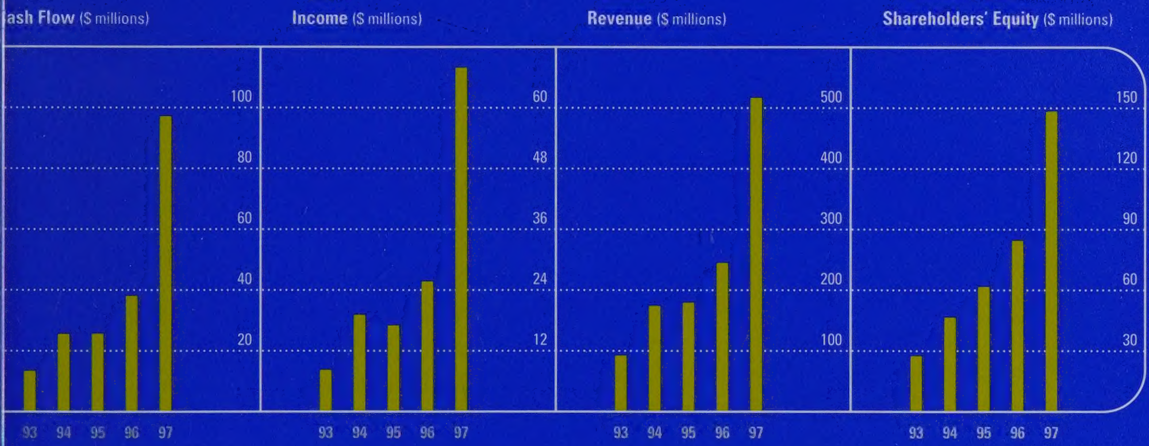
WELL SERVICING

Rockwell Servicing | Leyen Oilwell Servicing

Notice of Annual Meeting

The Annual General Meeting of Shareholders will be held on Wednesday, May 20, 1998 at 3:00 pm at the Calgary Petroleum Club. All shareholders are encouraged to attend, but if unable, we request the form of proxy be signed and returned.

97 highlights



($000s except per share data)	1997	1996	% Change
Financial			
Revenue	**517,500**	245,429	+111
Cash Flow	**96,716**	38,176	+153
Per Share	**4.69**	1.88	+149
Income	**68,035**	25,828	+163
Per Share	**3.30**	1.27	+160
Shareholders' Equity	**148,592**	84,722	+75
Net Capital Expenditures	**50,437**	83,185	–39
Long-term Debt	**36,868**	51,132	–28
Average Number of Shares Outstanding	**20,615,674**	20,319,543	+1
Return on Shareholders' Equity	**46%**	30%	+53
Operating			
Number of Drilling Rigs	**149**	134	+11
Number of Well Servicing Rigs	**95**	81	+17
Wells Drilled (Canada)	**3,008**	2,185	+38
Wells Drilled (U.S.)	**517**	249	+108
Rig Utilization Rate (%)			
Drilling (Canada)	**72.3**	61.9	+17
Drilling (U.S.)	**52.2**	40.2	+30
Well Servicing	**92.9**	91.1	+2

To Our Shareholders

The Ensign Group achieved record financial and operating results in both areas of our operations – well drilling and well servicing – in the fiscal year ended December 31, 1997. Factors contributing to the record results included a larger drilling and servicing rig fleet, high drilling and servicing utilization rates in Canada, improved results for the United States drilling division, and consistent margins in all divisions. In addition, activity levels in the second quarter of 1997, historically a slow period in Canada due to spring "break-up" and scheduled equipment maintenance, remained strong due to favourable market and weather conditions.

Fundamental to the Company's success is our depth of experience and an ability to anticipate and react quickly to changing market conditions. Also contributing to our leadership within the industry is the expertise and commitment of our capable staff throughout all five divisions. Their efforts, particularly during a very active and challenging year, have placed the Ensign Group in a strong position for continued growth.

Overview of the Year

In 1997, revenue reached a record $517.5 million, a 111 percent increase over $245.4 million in 1996. Cash flow rose 153 percent to $96.7 million ($4.69 per share) from $38.2 million ($1.88 per share) in the previous year. Net income reached $68.0 million ($3.30 per share), a 163 percent increase over $25.8 million ($1.27 per share) in 1996.

The oil and gas service industry continued to benefit from high activity levels throughout 1997. During the year, the number of wells drilled in Canada increased 30 percent to 16,484 wells compared to 12,695 wells in 1996 and 11,062 wells in 1995. As a result, the Ensign Group's Canadian drilling divisions – Ensign Drilling and Tri-City Drilling – drilled a combined 3,008 wells in Canada in 1997, a 38 percent increase over 2,185 wells in 1996. The Canadian drilling divisions recorded 71 percent more drilling days during 1997 compared to the previous year. This resulted in a Canadian drilling rig utilization rate of 72 percent compared to 62 percent in 1996. The Ensign Group's Canadian market share increased to 19 percent in 1997 from 17 percent in 1996.

Caza Drilling Inc., our United States drilling division, achieved significant improvements in financial and operating results that began in the first half of 1997.

expertise

The Ensign Group is proud of its many distinguishing attributes – an extensive, reliable drilling and servicing rig fleet, the highest maintenance and safety standards, expert management and staff, a strong reputation, customer loyalty and environmental stewardship. These factors contribute to the Company's prominence in the well drilling and well servicing industries and will also ensure future growth.

Higher natural gas prices in the Rocky Mountain region of the United States on a year-over-year basis contributed to a resurgence of on-shore drilling activity. As the second largest driller in this region, Caza Drilling Inc.'s rig utilization (based on a fleet of 46 drilling rigs) improved to 52 percent in 1997 from 40 percent in the prior year with the recording of 171 percent more drilling days. These operating achievements and improved margins led to higher profitability for Caza Drilling Inc. in 1997, enabling the division to make its first meaningful contribution to the financial results of the Ensign Group.

Our two well servicing divisions – Rockwell Servicing and Leyen Oilwell Servicing – also achieved record operating results in 1997. Industry utilization rates reached record levels during the year, enabling these divisions to record a 23 percent increase in revenue hours in 1997 compared to 1996. The well servicing divisions recorded a utilization rate of 93 percent in 1997 compared to 91 percent in 1996. These divisions were prepared for the upward shift in activity with the necessary equipment, maintenance systems and safety standards in place. The high utilization rates, combined with a larger rig fleet, enabled both divisions to post record financial results for the year.

Methods For Growth

The Ensign Group is an opportunistic company that seeks to grow primarily through the following methods – acquisitions and the construction of new rigs, the development of new markets, and the application of advanced technology.

In 1997, high industry activity levels drove up the cost of acquiring drilling and servicing rigs. After emphasizing growth through acquisitions in the prior year, the Ensign Group combined select acquisitions with the construction of new rigs in 1997. During the year, the Company added 15 rigs to its Canadian drilling fleet and added 14 rigs to its Canadian well servicing fleet. To ensure the economic viability of construction projects, it is the Company's practice to control the financial risk associated with the cost of such projects by securing them with long-term contracts with established customers. Despite the high levels of activity, we do not believe that industry pricing levels justify the speculative construction of new equipment.

As a result of both new construction and acquisitions, the Ensign Group's Canadian drilling rig fleet expanded to 103 rigs at December 31, 1997, compared to 88 rigs at December 31, 1996. The well servicing rig fleet consisted of 95 rigs at December 31, 1997, a 17 percent increase over the 81 rigs at year-end 1996. Our United States drilling rig fleet remained unchanged for the year at 46 operable drilling rigs at December 31, 1997.

Competitive Advantages

Since beginning operations ten years ago, the Ensign Group has developed a number of distinct competitive advantages which have enabled us to remain at the forefront of the industry. One of our most important competitive advantages is our expertise in identifying and utilizing new technology. An ability to anticipate and work with clients to develop and apply new technology for well drilling and servicing has proven financially beneficial and has contributed to the advancement of the industry.

The Ensign Group has developed a leadership role in the area of horizontal drilling, including under-balanced drilling and the horizontal re-entry of existing wells. Over the past five years, we have accumulated expertise and equipment in this specialized area which gives us the capability of solving drilling problems associated with challenging oil and natural gas formations.

The Ensign Group has also been actively participating in developing technology in coiled tubing drilling. The Company participated in the drilling of 30 wells using a prototype rig in this relatively new market niche. The prototype rig provided a working platform to research and develop the technology. Although the Ensign Group is not currently performing coiled tubing drilling, future rigs may incorporate features found on the prototype.

Other competitive advantages include our ability to maintain a strong customer focus and to emphasize the development of long-term relationships. Our safety record is another distinct advantage, including certification of equipment to the highest industry standards, and superior safety training for personnel. Our size and flexibility are advantageous in providing the widest range of rig sizes and capabilities to every area of the Western Canadian Sedimentary Basin and the Rocky Mountain region of the United States.

Outlook

The Ensign Group anticipates another active and prosperous year in 1998. Our activity levels and performance will continue to depend upon general industry conditions and commodity prices. According to the Canadian Association of Oilwell Drilling Contractors, the number of wells expected to be drilled in Canada in 1998 is to 13,700 wells, down from the recorded 16,484 wells drilled in 1997. Even at that level of activity, 1998 will rank second in terms of the number of wells drilled in recent history. In addition, it is expected that a greater number of the wells drilled in 1998 will be natural gas. These wells are usually deeper than oil wells, thereby increasing the average days per well to nine in 1998 from eight in 1997. The overall effect is that the total rig days in 1998 will be comparable to total rig days in 1997.

The reduction in the 1998 Canadian well forecast reflects the uncertainty which has been experienced during the beginning of the year. Current crude oil prices, in the range of U.S.$15.00 to $16.00 WTI per barrel, are below the 1997 average of U.S.$20.62 per barrel. However, offsetting lower oil prices are higher natural gas prices which are reflective of a balance between commodity supply and demand, and the growing acceptance of natural gas as an environmentally advantageous fuel. Western Canada has an abundance of natural gas and projects such as TransCanada PipeLines' expansions

results

Nineteen ninety-eight is expected to be another active and prosperous year for the Ensign Group. Continued stability in natural gas prices, increased gas pipeline capacity in both Canada and the United States, and the anticipated high levels of natural gas drilling activity throughout North America are all external factors that will continue to positively impact our results.

and the upcoming Alliance Pipeline Project, if approved, will enable Canadian producers to reach growing U.S. markets. In the United States, recently constructed and re-configured pipelines are providing increased natural gas transportation capacity from the Rocky Mountain region to the high consumption areas of the midwest and northeast United States. Together, these factors are expected to result in higher levels of natural gas drilling activity throughout North America to meet the increased demand supported by the increased transportation capacity.

Other factors which will positively impact our results are the benefits of the upgrading and refurbishment projects undertaken in 1997, the expected continuation of relatively high activity levels, and strong financial contribution from our United States drilling division. The number of revenue-generating days of the Ensign Group during 1998 is expected to remain high due to a backlog of projects and the increased emphasis on natural gas well drilling.

When opportunities arise, we will continue to pursue the major growth avenues of acquisitions and construction of new equipment, the development of new markets and the application of emerging technology.

Merger Strengthens Operations

We are pleased to announce that, during the first quarter of 1998, the Ensign Group entered into a merger agreement with Artisan Corporation. The combined well drilling and servicing operations will improve efficiencies and enhance customer service. Upon completion of the merger, the Ensign Group will operate a combined drilling fleet of 182 drilling rigs in Canada and the United States, and 115 well servicing rigs in Canada. In addition, the Company will operate 11 coiled tubing well servicing units and will expand into the manufacture of specialty oilfield production equipment and the provision of other specialized services. As a result of the merger, the Ensign Group emerges a much stronger company with an increased range of capabilities and a continuing commitment to quality and service.

Acknowledgments

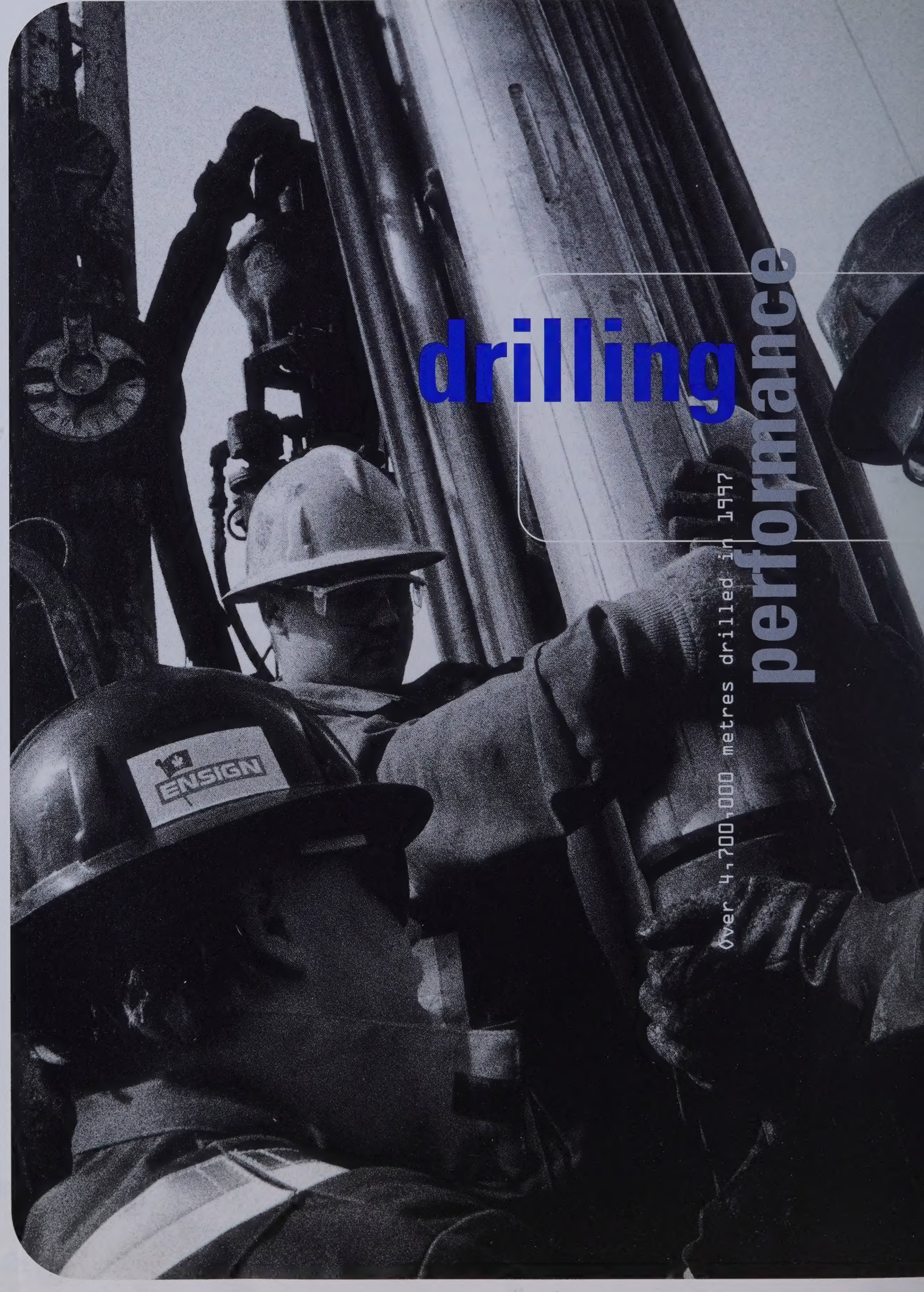
We acknowledge the contributions of our strong team of employees in every division of the Company. Their efforts to continuously improve the performance of the Company through higher standards of quality, service and safety are what make the Ensign Group a leader. During a challenging and rewarding year, their accomplishments will lead us to the next level of growth.

On behalf of the Board of Directors,

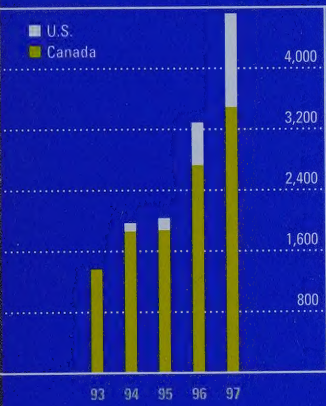
N. Murray Edwards, Chairman

Selby Porter, President

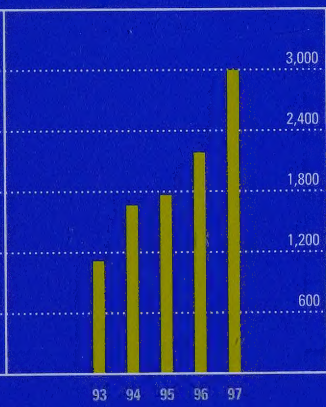
April 14, 1998


drilling
performance
Over 4,700,000 metres drilled in 1997
ENSIGN

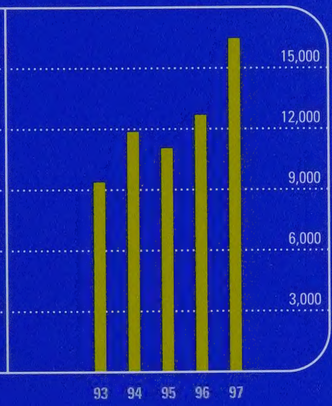
Metres Drilled (000s)
Ensign Group



Wells Drilled in Western Canada
Ensign Group



Wells Drilled in Western Canada
Industry



All three of the Ensign Group's drilling divisions, Ensign Drilling, Tri-City Drilling and Caza Drilling Inc., experienced record utilization rates and profitability in 1997. In terms of fleet size, Ensign Drilling and Tri-City Drilling's combined fleet of 103 drilling rigs is the second largest in Canada. The combined drilling rigs of all three divisions – 149 rigs in 1997 – represents the third largest drilling fleet in North America.

Rig Depth Capabilities (metres)

	# of Rigs	% of Fleet
0 - 1,000	4	3
1,001 - 2,000	34	23
2,001 - 3,000	82	55
3,001 - 4,000	20	13
4,001 - 5,000	7	5
5,001 +	2	1
Total	149	100

The extensive rig fleet of the Ensign Group's drilling divisions is highly flexible with the ability to encompass the complete spectrum of oil and gas drilling depths – from approximately 500 metres (1,600 feet) to 6,000 metres (20,000 feet). The fleet is also capable of meeting customer needs through its mobility and the provision of specialty services such as horizontal drilling, underbalanced drilling, the horizontal re-entry of existing wells, and other technological demands. In the drilling industry, customers make choices based on loyalty, equipment performance, and safety record. The Ensign Group combines the strong name recognition of all three drilling divisions, top performance records, and high safety standards and levels of equipment certification.

growth

In 1998, the high activity levels and profitability of the three drilling divisions are expected to continue. In Canada, the size, flexibility and mobility of the drilling fleet will fulfill the expected high demand for natural gas drilling. In the United States, Caza Drilling Inc. will also benefit from continued strength in natural gas prices and drilling activity.

Ensign Drilling

Ensign Drilling's fleet grew to 73 drilling rigs in 1997 compared to 59 rigs in 1996 as a result of acquisitions and the construction of new rigs. The increased fleet size combined with high activity levels enabled Ensign Drilling to achieve a record number of metres drilled in 1997. The division's rig utilization for the year was 72 percent compared to 62 percent in 1996, leading to an 85 percent increase in drilling days in 1997.

Since drilling its first horizontal well in the Canadian industry in 1987, Ensign Drilling has become an established leader in the provision of specialty drilling. Today, the division has gained considerable expertise and equipment to operate over 60 drilling rigs in the horizontal drilling market, including capabilities for under-balanced drilling and the horizontal re-entry of existing wells. The Canadian drilling divisions drilled 536 horizontal wells in 1997 compared to 270 horizontal wells in 1996.

Ensign Drilling's operations are based in Nisku, Alberta, with field offices in Grande Prairie, Alberta and Estevan, Saskatchewan.

Tri-City Drilling

Tri-City Drilling has a well regarded, established reputation in the Canadian oil and natural gas service industry. The division has maintained a specialization in shallow and intermediate-depth wells, with one of the highest rig utilization rates in the industry. In 1997, utilization rates increased to 74 percent from 66 percent in 1996. Tri-City Drilling operated 30 drilling rigs at December 31, 1997, a slight increase over the 29 drilling rigs operated at the end of the previous year, and recorded 46 percent more drilling days in 1997 compared to the prior year.

The high utilization rates are the result of the emphasis placed by Tri-City Drilling on the highest standards of service to its clients, combined with a commitment to cost control and profitability, continuous equipment upgrading and the maintenance of a skilled and trained workforce. Tri-City Drilling was recognized by the Canadian Association of Oilwell Drilling Contractors for best safety results in the large contractor group during the previous year.

Tri-City Drilling operates from its facilities in Edmonton, Alberta.

Caza Drilling Inc.

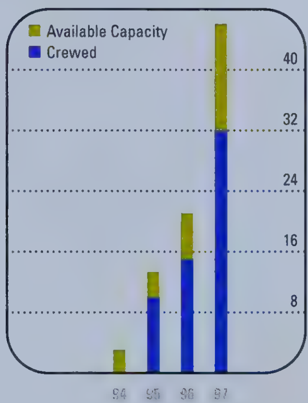
The Ensign Group's United States drilling division, Caza Drilling Inc., substantially improved its operating results in 1997. Caza Drilling Inc.'s rig fleet totalled 46 operable drilling rigs (of which 32 drilling rigs are crewed) at December 31, 1997, unchanged from the prior year as the division focused on upgrading equipment and integrating the rigs acquired in late 1996 into its operations. Caza Drilling Inc. operates the second largest drilling rig fleet in the Rocky Mountain region of the United States. During 1997, Caza Drilling Inc. recorded 171 percent more drilling days compared to the previous year as a result of an increased rig fleet and improved activity levels in its operating area. Approximately two-thirds of the wells drilled by Caza Drilling Inc. are natural gas.

Land-based drilling in the United States experienced a major resurgence in 1997, primarily due to improved gas transportation capabilities and the resultant increase in gas prices. As the consolidation of drilling contractors in the Rocky Mountain region levelled out in 1997, the resulting economies of scale began to have an impact in the industry. Caza Drilling Inc. took advantage of these circumstances to make its first meaningful contribution to the profitability of the Ensign Group in 1997. For 1998, activity levels in the United States are expected to continue to improve.

Caza Drilling Inc.'s competitive advantages include a high level of technological expertise which it exchanges on a regular basis with the Ensign Group's Canadian drilling divisions. For example, Caza Drilling Inc. worked with Ensign Drilling to improve its proficiency in the drilling of horizontal wells, primarily in the Williston Basin of North Dakota. Caza Drilling Inc. has also developed valuable drilling knowledge in various areas throughout the Rocky Mountain region, enabling it to perform projects on a well "footage" or "turnkey" basis. This allows customers to fix their price for a well and enables Caza Drilling Inc. to profit from its own efficiencies. A management team with a depth of experience, low overhead, and stacked rigs available to meet growing market demand will continue to reinforce the division's strong market share in the region for another profitable year in 1998.

Caza Drilling Inc. is headquartered in Denver, Colorado and operates in seven states in the Rocky Mountain region of the United States.

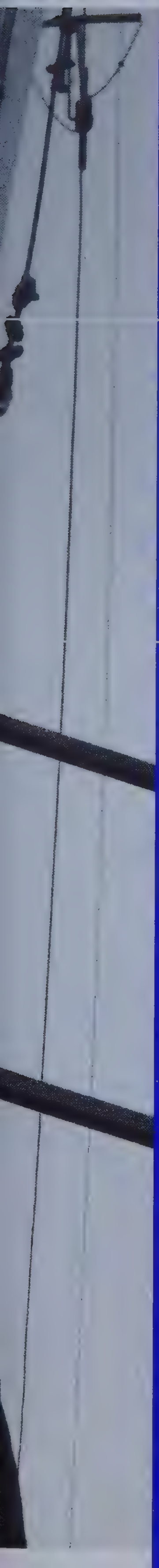
U.S. Drilling Rig Capacity
Weighted Average Number of Available Rigs



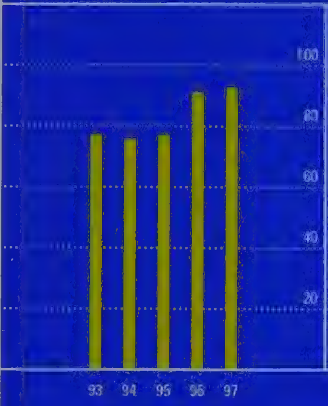
well servicing

innovation

Servicing Canada with a utilization rate of over 90%



Utilization Rate – Well Servicing (%)



Rig Classification

	# of Rigs	% of Fleet
Slant Single	10	11
Mobile Single	12	13
Mobile Double	57	60
Mobile Single-Double	6	6
Medium Double	3	3
Heavy Double	7	7
Total	95	100

The Ensign Group's two well servicing divisions, Rockwell Servicing and Leyen Oilwell Servicing, provide well completion and maintenance services with the third largest well servicing fleet in the Canadian industry. The two divisions offer shallow to deep well servicing to oil and gas producers throughout the Western Canadian Sedimentary Basin. Rockwell Servicing and Leyen Oilwell Servicing achieved record utilization rates in 1997 in operating a combined fleet of 95 well servicing rigs at year-end.

Rig Distribution

Alberta, Saskatchewan
Canada

Rockwell Servicing and Leyen Oilwell Servicing achieved a 23 percent increase in operating hours in 1997 compared to 1996 as they recorded a combined utilization rate of 93 percent for 1997 compared to a utilization rate of 91 percent in 1996. A larger rig fleet combined with high utilization rates enabled the two divisions to post record financial results for 1997.

The relatively stable nature of the well servicing business provides an opportunity for the Ensign Group to focus on developing long-term relationships with clients and to closely monitor and control expenses in an effort to attain consistent margins and cash flow. Although well servicing work is usually performed on a "call up" basis, the Ensign Group's well servicing divisions take pride in building relationships with clients that span cycles in the oil and gas industry. More than half of the Company's well servicing clients conduct business on a long-term basis.

dominance

The streamlining and efficiency of the well servicing divisions have been maximized through the centralizing of management, marketing, safety and accounting functions in the Ensign Group's Calgary office. Continuous quality improvement, regular maintenance and upgrading of the rig fleet, and the highest safety standards have led Rockwell Servicing and Leyen Oilwell Servicing to achieve leadership roles in the industry.

Rockwell Servicing

At year-end 1997, Rockwell Servicing's fleet totalled 50 well servicing rigs compared to 40 rigs at year-end 1996. During the year, the division added 10 well servicing rigs to its fleet: seven well servicing rigs through a number of acquisitions and the completion of the construction of three new slant well servicing rigs under contract to major customers. In the first quarter of 1998, Rockwell Servicing operated a total of 10 slant well servicing rigs, the largest slant well servicing fleet in Canada. While current levels of activity in slant well servicing for the heavy oil market have reduced due to widening heavy oil price differentials and current low oil prices, Rockwell Servicing will continue to provide expertise in this specialty service.

The division's utilization rates reached record levels in 1997, increasing to 93 percent from 91 percent in 1996. The division recorded a 24 percent increase in operating hours due to the high activity levels and an expanded rig fleet. During 1997, Rockwell Servicing was recognized by the Canadian Association of Oilwell Drilling Contractors for having the best safety record in its class for the previous year.

Rockwell Servicing provides well servicing throughout Alberta and western Saskatchewan from operating stations in Ardmore, Brooks, Grande Prairie and Red Deer, Alberta. Each of these stations experienced record levels of activity in 1997, and it is anticipated that these levels will continue in 1998.

Leyen Oilwell Servicing

From its facilities in Lloydminster, Alberta, Leyen Oilwell Servicing performs the majority of its operations in the Lloydminster area. In 1997, this division achieved record utilization rates of 93 percent compared to 91 percent in 1996, and operating hours which increased 21 percent over 1996 levels. These increases reflect higher industry activity and a larger rig fleet which grew to 45 well servicing rigs at year-end 1997 from 41 well servicing rigs at year-end 1996.

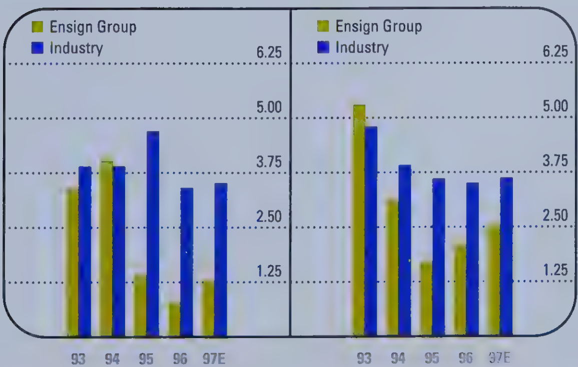
Throughout most of 1997, Leyen Oilwell Servicing took advantage of strong demand for heavy oil well servicing. However, towards the end of the year when heavy oil prices weakened, the division responded to the changing needs of its clients. The flexibility and responsiveness of Leyen Oilwell Servicing's rig fleet was evident in a successful shift to other areas and additional natural gas well servicing which lessened the impact of reduced activity in heavy oil. Until such time as the heavy oil market recovers, some of the Leyen Oilwell Servicing rigs will be redeployed in other areas.

Safety and the Environment

A Firm Commitment Standardization of safety and training procedures across all divisions have resulted in the establishment of an excellent safety record. For several years, the Ensign Group has maintained a leadership role as measured by the industry benchmark of "lost time rate". In addition to providing safe work sites for all employees, the Company's safety focus adds value for clients through the highest equipment certification, minimal lost time due to injuries, and high levels of performance.

The Ensign Group has seven employees solely dedicated to implementing the necessary management systems to ensure that the Company's health, safety and environmental standards are continuously reviewed and followed.

The year ended December 31, 1997 was a particularly challenging one for training and developing new employees. Training of staff is comprised of two components – regulatory training and developmental training. On the regulatory side, the Company exceeds the minimum requirements for employment in the oil and natural gas drilling and well servicing industry. Rig crews are trained in well control, first aid, H_2S (hydrogen sulfide) and the transportation of dangerous goods. In addition, internally-developed training programs focus on Company-specific policies and procedures. Each division of the Ensign Group holds annual rig manager and driller conferences to further develop the management skills of rig managers and senior drillers.



Well Servicing Lost Time Accident Frequency

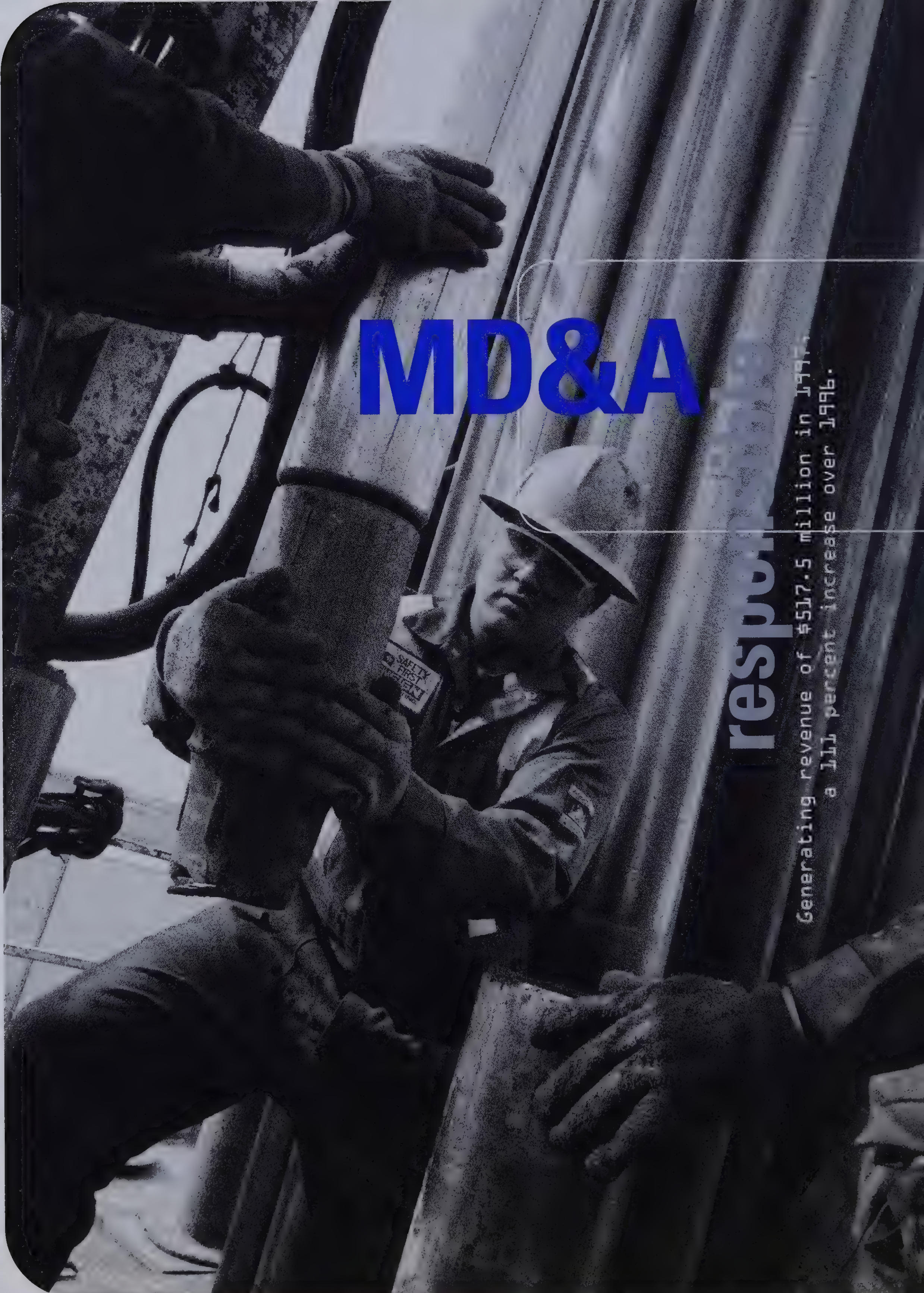
Drilling Lost Time Accident Frequency

(compensible accidents per 200,000 man hours worked)

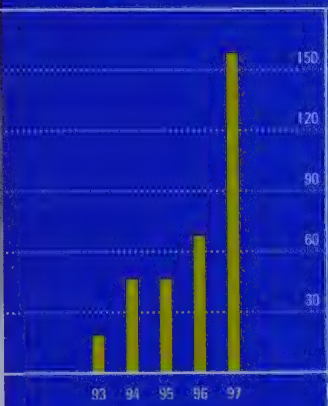
For each of the past eight years, the Ensign Group has proactively performed an internal audit of its health and safety processes. This comprehensive analysis, entitled "Impact 2000", examines the following aspects of the Company's activities: corporate leadership, operations, human resources, facilities and services, administration, and health and safety information and promotions.

The Importance of Rig Maintenance A significant component of the Ensign Group's maintenance expenditures in 1997 was for the purpose of meeting standards of safety, reliability and mobility in the rig fleet. In turn, these standards prevent injuries, provide lower "non-productive time" for customers, and contribute to the economic performance of the Company. To ensure that all standards are met, rig fleets are tested and safety coordinators and field superintendents visit the rigs on a regular basis.

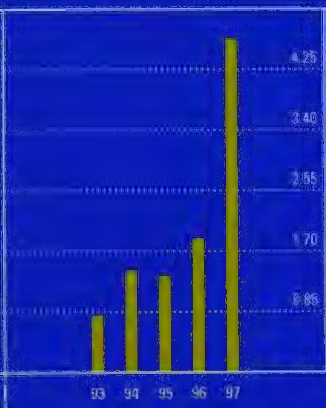
Environmental Stewardship The Ensign Group adheres to rigorous environmental standards in conducting its operations which are overseen by the Company's safety personnel. All of the Company's drilling and well servicing managers have completed waste and environmental management training. In addition, all rig sites post the Ensign Group's environmental standards for the purpose of maintaining the highest level of awareness among rig crews. It is the Company's responsibility to reduce, reuse, recycle and reclaim materials resulting from the waste generated by the well drilling and servicing operations.


MD&A
Generating revenue of $517.5 million in 1997,
a 111 percent increase over 1996.

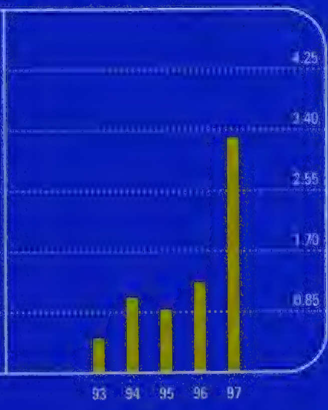
Gross Margin ($ millions)



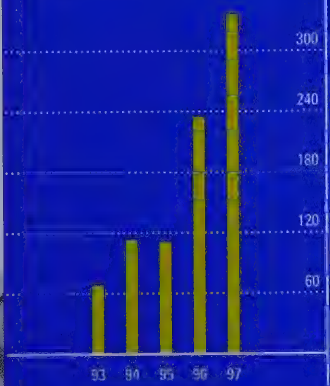
Cash Flow Per Share ($)



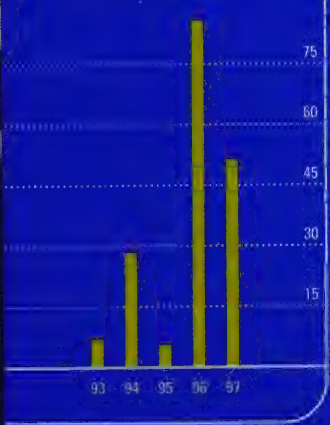
Income Per Share ($)



Total Assets ($ millions)



Net Capital Additions ($ millions)



Nineteen ninety-seven represented another exceptional year for the Ensign Group, as record levels of earnings and cash flow were generated. The strong financial performance of the Company can be tied to high levels of activity in the Canadian and United States oil and natural gas well drilling and well servicing industry. The continued expansion of the Company's rig fleet further added to the financial results for the year.

Revenue generated by the Ensign Group totalled $517.5 million in fiscal 1997. This represents an increase of 111 percent over the $245.4 million recorded in 1996. Net income for the Ensign Group increased 163 percent to $68.0 million ($3.30 per share) in 1997 compared to earnings of $25.8 million ($1.27 per share) in fiscal 1996. Cash flow provided by operations increased to $96.7 million ($4.69 per share) in 1997, a 153 percent increase from the $38.2 million ($1.88 per share) generated in 1996.

Revenue

The Ensign Group increased its revenue to $517.5 million for the year ended December 31, 1997, a 111 percent increase from the $245.4 million of revenue generated in 1996. The increase in revenue can be attributed to a number of factors, primarily being the increase in the size of the Ensign Group's rig fleet. While several rigs were added to the fleet during the year the most significant impact on revenues in 1997 relates to a substantial number of rigs acquired in both Canada and the United States in the latter part of 1996. The increase in the size of the rig fleet, combined with near record levels of activity in the Canadian oil and natural gas industry and continued growth in the level of activity in oil and natural gas drilling in the Rocky Mountain region of the United States, resulted in a large increase in revenue for the Ensign Group during the year. An additional factor associated with the increase in revenue for the year was the improvement in revenue rates in both Canada and the United States during 1997 due to the strong demand for drilling and well servicing services.

The Ensign Group operated an average of 95 drilling rigs during 1997 through its two Canadian drilling divisions, Ensign Drilling and Tri-City Drilling. This represents an increase of 48 percent over the average of 64 drilling rigs operated in Canada in 1996. Caza Drilling Inc. had an average of 46 operable drilling rigs in 1997 compared to an average of 22 operable drilling rigs in the prior year. The Company's two Canadian well servicing divisions, Rockwell Servicing and Leyen Oilwell Servicing, operated an average of 88 rigs during 1997 compared to an average of 73 rigs operated during 1996. The increase in the size of the drilling and well servicing rig fleet was supported by the continued strong demand for contract drilling and well servicing throughout 1997. The result was a further strengthening in the revenue rates for these services in fiscal 1997 compared to 1996.

Ensign Drilling increased its rig fleet during 1997 by 14 rigs to operate 73 drilling rigs at December 31, 1997. This represents a 24 percent increase over the fleet of 59 drilling rigs Ensign Drilling operated at December 31, 1996. Ensign Drilling constructed six new rigs during 1997 in addition to refurbishing three rigs which were not previously in service. An additional five rigs were acquired when Ensign Drilling purchased all of the drilling assets of Viper Drilling (1984) Ltd. in March of 1997. A combination of the larger fleet size and continued strong levels of activity resulted in the drilling of 1,703 wells, a 61 percent increase over the 1,057 wells drilled in 1996.

Tri-City Drilling increased its rig fleet by one during 1997 to operate a total of 30 drilling rigs at December 31, 1997 compared to 29 drilling rigs operated at December 31, 1996. The additional rig was constructed in the fall of 1997 and put into service in December 1997. With the additional rigs added to Tri-City Drilling's rig fleet late in 1996 and the continued high levels of activity throughout 1997, Tri-City Drilling drilled 1,305 wells during the year, representing a 16 percent increase over the 1,128 wells drilled in 1996.

Caza Drilling Inc., the Ensign Group's United States drilling division, experienced a breakthrough year in terms of activity in 1997. While the operable number of rigs remained consistent at 46 drilling rigs at December 31, 1997, the number of wells drilled increased 108 percent to 517 wells compared to 249 wells drilled in fiscal 1996. The substantial increase

in wells drilled is attributed to the increase in activity levels in the oil and natural gas industry in the Rocky Mountain region of the United States and the first full year of operations for Caza Drilling Inc.'s expanded rig fleet. A total of 33 operable drilling rigs were added in the second half of 1996.

While the United States on-shore drilling market has experienced a prolonged period of depressed activity and low pricing, 1997 brought renewed enthusiasm as expressed through the activity during the year. Caza Drilling Inc. was able to take advantage of the positive environment in 1997 and operated up to 32 drilling rigs in the market. A shortage of skilled rig crews prevented Caza Drilling Inc. from operating additional rigs.

Rockwell Servicing added 10 service rigs to its fleet during 1997, bringing the total operating number of rigs to 50 at December 31, 1997. This represents a 25 percent increase over the 40 well service rigs in its fleet at December 31, 1996. Rockwell Servicing constructed three new service rigs during the year, two of which went into service in March 1997 and one which went into service in October 1997. Rockwell Servicing acquired one rig in February 1997 as part of the purchase of Rotation Well Servicing Ltd. In August 1997, the division added three additional rigs to its fleet. Finally, in November 1997, Rockwell Servicing acquired an additional three rigs when it purchased all of the well servicing assets of G & W Well Servicing Ltd. A larger rig fleet as well as continued high activity levels allowed Rockwell Servicing to increase its operating hours by 24 percent during the year. As a result, the division increased its utilization rate to 93 percent for 1997 compared to 91 percent for the prior year.

Leyen Oilwell Servicing also increased the size of its rig fleet during 1997. At December 31, 1997, Leyen Oilwell Servicing operated a total of 45 service rigs, an increase of 10 percent over the 41 rigs operated at December 31, 1996. An additional three rigs were acquired when the shares of Rotation Well Servicing Ltd. were purchased in February 1997. An additional rig was acquired in June 1997 from Twilite Well Service Ltd. High activity levels in the heavy oil area around Lloydminster, Alberta and a larger rig fleet allowed Leyen Oilwell Servicing to increase its operating hours by 21 percent in 1997. In addition, its rig utilization rate increased two percent to 93 percent for the year ended December 31, 1997.

Expenses

Drilling and well servicing expenses for the Ensign Group were $359.3 million for the year ended December 31, 1997, a 102 percent increase from the $177.5 million recorded in 1996. The increase in operating expenses is consistent with the increase in the revenue recorded by the Company during the year. High activity levels in both Canada and the Rocky Mountain region of the United States coupled with a significantly larger rig fleet account for the increased operating expenses for the Ensign Group in fiscal 1997. The oil and natural gas service industry in both Canada and the Rocky Mountain region of the United States experienced higher labour costs during the year due to a shortage of skilled workers. Consequently, the Company incurred significant training and safety expenses to ensure that all work sites were operating in the most efficient and secure environment possible. In addition, substantial expenses were incurred during the year for planned maintenance to the Company's rig fleet. The Ensign Group maintains

the highest standards for operating its rig fleet and related equipment, thereby ensuring a high level of customer service and a safe and efficient work environment.

Depreciation expenses increased 94 percent to $12.5 million from $6.4 million recorded in the previous year. The increase in depreciation is due entirely to the increase in the size of the rig fleet, as 1997 was the first full year of depreciation taken on the assets added in fiscal 1996.

General and administrative expenses rose to $19.2 million for the year ended December 31, 1997. This represents a 41 percent increase over the $13.6 million recorded in 1996. The increase in these costs is directly related to the growth the Company has experienced within the last 18 months. The Company achieved general and administrative costs of 3.7 cents per revenue dollar. This represents a 33 percent decrease from the 5.5 cents per revenue dollar recorded in 1996.

Interest expense for the year rose to $3.1 million from $1.3 million recorded in fiscal 1996. The increase is primarily attributable to the debt incurred in late 1996 relating to the rigs acquired in both Canada and the United States. Additionally, the high levels of activity and larger rig fleet resulted in the Company utilizing greater amounts of its operating line of credit compared to the previous year.

Income and Cash Flow

The Ensign Group earned income of $68.0 million ($3.30 per share) for the year ended December 31, 1997, a 163 percent increase over the $25.8 million ($1.27 per share) earned in the year ended December 31, 1996. The most significant factor in the increase in earnings is the Ensign Group's larger rig fleet. Improved activity levels in the Rocky Mountain region of the United States and the continued strong levels of activity in western Canada also contributed to increased utilization rates and improved earnings for the year. The gross margin for 1997 was 30 percent compared to 28 percent for 1996. Management's continuing control over operational and administrative expenses also contributed to improved profitability levels in 1997.

The income tax provision for the Ensign Group totalled $55.4 million in fiscal 1997. Of this provision, $39.2 million represents the current portion and $16.2 million the deferred portion. The provision for 1996 was $20.7 million, $14.8 million of which was the current provision and $5.9 million the deferred portion. The increase in the amount of deferred taxes in 1997 is primarily the result of utilizing certain United States tax losses from prior years to shelter income earned in the United States in fiscal 1997.

Cash provided by operating activities (before changes in non-cash working capital) rose to $96.7 million ($4.69 per share) in fiscal 1997, representing a 153 percent increase from the $38.2 million ($1.88 per share) generated in 1996. Similar to the factors associated with the increase in net income for 1997, a larger rig fleet and increased activity levels in both Canada and the United States are the major factors associated with the increase in cash flow for the current year.

The Ensign Group declared and paid Common Share dividends in 1997 totalling $4.9 million ($0.24 per Common Share). The Company paid $4.1 million ($0.20 per Common Share) in Common Share dividends in fiscal 1996. The dividend payments were made pursuant to the semi-annual dividend policy as presently adopted by the Board of Directors for

the payment of a dividend (in two instalments) based on the level of the previous year's income, subject to the ongoing financial needs of the Company. In March 1998, an additional $4.6 million was paid as a semi-annual dividend to shareholders on the basis of $0.225 per Common Share.

Acquisitions

In 1997 the Ensign Group continued its opportunistic growth strategy by investing over $50.4 million of cash flow in additional rigs and related equipment. This is a 39 percent reduction from the capital expenditures of $83.2 million incurred in fiscal 1996. Fewer and smaller acquisitions and the construction of several drilling and servicing rigs were the mechanisms by which the Ensign Group grew its rig fleet in 1997. The one acquisition completed within the Canadian drilling divisions took place in March 1997 when Ensign Drilling acquired five drilling rigs and related assets from Viper Drilling (1984) Ltd. In addition to this acquisition, the Company constructed seven new drilling rigs and refurbished an additional three rigs during the year. The Ensign Group also purchased four portable top drives during the year. These will be deployed in drilling horizontal wells, for which Ensign Drilling is considered an industry leader. With these additions, the Ensign Group currently operates 149 drilling rigs in Canada and the United States.

As previously reported, the Canadian well servicing division also added several rigs to its fleet during 1997. In February 1997, the Company acquired Rotation Well Servicing Ltd. and its four rigs and related equipment. In June 1997, the Company bought an additional rig from Twilite Well Service Ltd. and, in August 1997, an additional three rigs and related equipment were acquired – two from Starwell Servicing Ltd. and one from J & J Koch Holdings Ltd. In November 1997, the Company acquired an additional three rigs and related equipment from G & W Well Servicing Ltd. The Ensign Group also constructed an additional three servicing rigs during 1997, two new slant servicing rigs which went into service in March 1997, and another slant service rig, which was placed into service in November 1997. The Ensign Group operated 95 well servicing rigs at December 31, 1997.

Financial Condition and Liquidity

The Ensign Group had positive working capital of $29.2 million at December 31, 1997 compared to a slight negative working capital position of $4.2 million at December 31, 1996. The current working capital position includes $10.0 million in the current portion of long-term debt. The improvement in the working capital position is a result of continued profitable operations in 1997 as well as lower capital expenditures in comparison to 1996. At December 31, 1997, the Company utilized $11.5 million of its operating line compared to $27.4 million utilized at the end of the previous year. The Ensign Group had long-term debt (including current portion) at December 31, 1997 of $36.9 million, a 28 percent decrease over the $51.1 million outstanding at December 31, 1996. All debt repayment schedules have been fulfilled by the Company and all covenants associated with the long-term debt have been met. The Company's long-term debt to equity ratio at December 31, 1997 was a conservative 0.2 to 1 compared to a ratio of 0.6 to 1 at December 31, 1996. The Ensign Group has the financial capabilities to pursue future opportunities.

Year 2000

The Ensign Group has undertaken the task of reviewing all of its systems and processes relating to its compatibility with the year 2000. Based on this review and with the enhancements implemented during the year, the Company is confident that all systems and processes will run effectively in the year 2000. Management will continue to monitor any changes which take place in the information systems environment to ensure compatibility is maintained with the year 2000.

Outlook

As the latter part of 1997 and the early part of 1998 have demonstrated, the environment the Ensign Group operates within includes many uncertainties over which the Company has little, if any, control. Primary among these are prices for both oil and natural gas. The industry has recently experienced a significant weakness in the price of oil which could affect the cash flows and, consequently, the exploration and development budgets of the Company's customers. The expansion and reduction of these budgets have a direct impact on the Company's activity levels. While uncertainty currently exists over the price of oil, two positive developments have occurred. The price of natural gas has been strong throughout 1997 and into 1998, with expectations that this strength will continue in the future. In addition, significant increases in pipeline capacities are expected in the short term in both western Canada and the Rocky Mountain region of the United States, thereby providing new markets for oil and natural gas producers. This should stimulate further activity as oil and gas producers will be able to ship production to additional markets.

While there is a general expectation that the market for contract drilling and well servicing in specific areas of Canada will soften, the Ensign Group has thus far been able maintain its revenue rates and operating margins. The significant growth experienced recently in the oil and natural gas industry in the Rocky Mountain region of the United States is also very encouraging. The Company is in a good position to take advantage of further growth in both the Canadian and United States markets as it has established itself as a leader in providing contract drilling and well servicing services.

The Ensign Group expects further growth through the recently announced merger with Artisan Corporation. The merger will provide new markets for the Company as a number of the Artisan drilling and well servicing rigs are located in areas which were not previously the focus of the Ensign Group. The merged entity will also be able to offer new products and services, as well as a greater availability and selection of Canadian drilling and well servicing equipment to meet customers' needs. The merger is expected to close in mid-May 1998.

While there are several uncertainties that exist in the current oilfield service environment, the overall outlook remains very optimistic. The Company believes that the long-term fundamentals for the service industry are very positive, especially given the level of drilling required to meet forecast levels of demand for natural gas in North America.

Management's Responsibility for Financial Statements

The consolidated financial statements and other information contained in the annual report are the responsibility of the management of the Company. The financial statements have been prepared in accordance with generally accepted accounting principles consistently applied, using management's best estimates and judgements, where appropriate.

Preparation of financial statements is an integral part of management's broader responsibilities for the ongoing operations of the Company. Management maintains a system of internal accounting controls to ensure that properly approved transactions are accurately recorded on a timely basis and result in reliable financial statements. The Company's external auditors are appointed by the shareholders. They independently perform the necessary tests of the Company's accounting records and procedures to enable them to express an opinion as to the fairness of the consolidated financial statements, in conformity with generally accepted accounting principles.

The Audit Committee, which is comprised of outside Directors, meets with management and the Company's external auditors to review the financial statements and reports on them to the Board of Directors. The financial statements have been approved by the Board of Directors.

Selby Porter
President

Glenn Dagenais
Vice President Finance and Chief Financial Officer

March 31, 1998

Auditors' Report

To the Shareholders of Ensign Resource Service Group Inc.

We have audited the consolidated balance sheet of Ensign Resource Service Group Inc. as at December 31, 1997 and 1996 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Price Waterhouse

Chartered Accountants

Calgary, Alberta
March 31, 1998

Consolidated Balance Sheet

December 31 (stated in thousands of dollars)	1997	1996
Assets		
Current assets		
Cash and cash equivalents	$ 2,865	$ 1,898
Accounts receivable	148,583	85,825
Inventory and other	4,872	4,880
	156,320	92,603
Property and equipment (Note 3)	177,591	138,930
Other, at cost	2,650	3,500
	$ 336,561	$ 235,033
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 105,262	$ 54,397
Operating line of credit (Note 4)	11,522	27,370
Current portion of long-term debt (Note 4)	10,350	15,000
	127,134	96,767
Long-term debt, net of current portion (Note 4)	26,518	36,132
Deferred income taxes	34,317	17,412
Shareholders' Equity		
Share capital (Note 5)	19,321	18,540
Retained earnings	129,271	66,182
	148,592	84,722
	$ 336,561	$ 235,033

Approved by the Board

Director

Director

Consolidated Statement of Earnings and Retained Earnings

Year ended December 31 (stated in thousands of dollars, except per share data)	1997	1996
Revenue		
Drilling and servicing	**$ 517,500**	$ 245,429
Expenses		
Drilling and servicing	**359,260**	177,522
Depreciation	**12,493**	6,430
General and administrative	**19,239**	13,608
Interest – long-term	**1,804**	874
Interest – other	**1,272**	456
	394,068	198,890
Income before income taxes	**123,432**	46,539
Income taxes		
Current	**39,209**	14,793
Deferred	**16,188**	5,918
	55,397	20,711
Income for the year	**68,035**	25,828
Retained earnings, beginning of year	**66,182**	44,410
Dividends	**(4,946)**	(4,056)
Retained earnings, end of year	**$ 129,271**	$ 66,182
Income per share (Note 5)		
Basic	**$ 3.30**	$ 1.27
Fully diluted	**$ 3.25**	$ 1.26

Consolidated Statement of Changes in Financial Position

Year ended December 31 (stated in thousands of dollars, except per share data)	1997	1996
Operating activities		
Income for the year	$ 68,035	$ 25,828
Charges not affecting cash		
Depreciation	12,493	6,430
Deferred income taxes	16,188	5,918
Cash provided by operating activities before change in non-cash working capital	96,716	38,176
(Increase) decrease in non-cash working capital	(27,733)	8,895
Cash provided by operating activities	68,983	47,071
Investing activities		
Purchase of property and equipment, net of proceeds of disposal	(50,437)	(83,185)
Other	850	(2,599)
Cash used in investing activities	(49,587)	(85,784)
Financing activities		
Net (decrease) increase in long-term debt	(14,264)	43,643
Issue of share capital (net of shares repurchased)	781	941
Dividends paid	(4,946)	(4,056)
Cash (used in) provided by financing activities	(18,429)	40,528
Increase in cash during year	967	1,815
Cash and cash equivalents, beginning of year	1,898	83
Cash and cash equivalents, end of year	$ 2,865	$ 1,898
Cash flow per share (Note 5)		
Basic	$ 4.69	$ 1.88
Fully diluted	$ 4.57	$ 1.83

For the purpose of the cash flow per share calculations, cash flow is defined as "Cash provided by operating activities before change in non-cash working capital".

Notes to Consolidated Financial Statements

December 31, 1997 (tabular amounts stated in thousands of dollars)

1. Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Ensign Resource Service Group Inc. and its wholly-owned subsidiaries. The companies carry on the business of providing contract drilling and well servicing services to the oil and gas industry.

2. Significant Accounting Policies

Income from Contracts

Income from contracts is recorded using the percentage of completion method. Losses are provided for in full when first determined.

Inventory

Inventory, comprised of spare rig parts and equipment, is recorded at the lower of cost and replacement cost.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is based on the estimated useful lives of the assets as follows:

Asset	Depreciation method	Estimated useful life (years)
Rigs and equipment	Straight-line (residual 20%)	15
Buildings	Straight-line	20
Automotive equipment	Straight-line	3
Office furniture and shop equipment	Straight-line	5

Foreign Currency Translation

Financial statements of the Company's self-sustaining United States operations are translated to Canadian dollars using the exchange rate in effect at the balance sheet date for all assets and liabilities, and at average rates of exchange during the period for revenues and expenses.

3. Property and Equipment

December 31	1997	1996
Land and buildings	$ 3,667	$ 3,667
Rigs and related equipment	219,044	170,955
Automotive and other equipment	10,448	7,968
	233,159	182,590
Accumulated depreciation	55,568	43,660
	$ 177,591	$ 138,930

Property and equipment with a net book value of approximately $5,348,000 (1996 – $5,682,000) has no tax basis.

4. Long-term Debt

December 31	1997	1996
Bank term loans – at prime or bankers' acceptance rate plus 0.875% stamping fee	$ 35,471	$ 49,417
Other	1,397	1,715
	36,868	51,132
Current portion	10,350	15,000
	$ 26,518	$ 36,132

At December 31, 1997, the Company had available operating lines of credit totalling $39,292,000 (1996 – $34,112,000) of which $11,522,000 (1996 – $27,370,000) was utilized at the bank prime interest rate or bankers' acceptance rate plus 0.625% stamping fee.

Collateral for the bank term loans and the operating lines of credit consists of a general security agreement, including a floating charge on certain assets and an assignment of insurance on certain property and equipment.

Principal payments of long-term debt are:

1998	$10,350,000
1999	$ 9,268,000
2000	$ 8,250,000
2001	$ 9,000,000

5. Share Capital

Authorized

Unlimited Common Shares

Unlimited Preferred Shares, issuable in series

Outstanding

	1997		1996	
December 31	**Number**	**Amount**	Number	Amount
Balance, beginning of year	**20,429,249**	**$ 18,540**	19,863,229	$ 17,599
Issued for the exercise of stock options	**313,500**	**781**	566,020	941
Total share capital, end of year	**20,742,749**	**$ 19,321**	20,429,249	$ 18,540

Options

At December 31, 1997, there were stock options granted to employees, directors and officers, outstanding in respect of 985,590 Common Shares (1996 – 1,419,490) exercisable at prices from $0.80 to $34.75. These options expire at various dates to December 31, 2002.

Common Share Dividends

During 1997, the Company paid dividends of $4,946,000 (1996 – $4,056,000), being $0.24 per Common Share (1996 – $0.20 per Common Share). A semi-annual dividend of $4,687,000, being $0.225 per Common Share, was declared and paid as of March 31, 1998.

Income Per Share and Cash Flow Per Share

Income per share and cash flow per share have been calculated on the basis of the weighted average number of Common Shares outstanding for the year which amounted to 20,615,674 shares (1996 – 20,319,543 shares). Fully diluted income per share and fully diluted cash flow per share have been calculated on the basis of the weighted average number of Common Shares of 21,571,222 shares (1996 – 21,470,700 shares).

6. Financial Instruments

The Company's financial instruments as at December 31, 1997 included cash, accounts receivable, accounts payable and accrued liabilities, and the operating line of credit. Due to the current nature of these items, carrying amounts are considered to approximate fair value.

Also, the Company's financial instruments as at December 31, 1997 included long-term debt. Substantially all of this debt is floating at the prime rate and, accordingly, the carrying amount is considered to approximate fair value.

The Company is exposed to credit risk in relation to its accounts receivable at December 31, 1997. As substantially all of the Company's customers are relatively well financed and established oil and gas companies, the level of credit risk is considered by management to be minimal.

7. Subsequent Event

Subsequent to December 31, 1997, the Company entered into a merger agreement by which it will acquire all of the outstanding shares of a drilling and service company for an estimated amount of $145,900,000, subject to regulatory and certain other approvals. The purchase price will be satisfied by payment of cash and issuance of treasury Common Shares.

Additional Information

The Company

Ensign Resource Service Group Inc. was incorporated on March 31, 1987 pursuant to the provisions of the *Business Corporations Act (Alberta)*. Pursuant to a prospectus, on December 15, 1987, the Company became a reporting issuer in the Province of Alberta.

Subsidiaries

The following table sets forth the principal operating subsidiaries of the Company, the percentage of shares owned, directly or indirectly, by the Company and the jurisdiction of incorporation or continuance of the subsidiaries as of December 31, 1997:

Name of Subsidiary	Jurisdiction of Incorporation or Continuance	Percentage of Shares Beneficially Owned or Controlled by the Company
Ensign Drilling Inc.	Alberta	100%
Rockwell Servicing Inc.	Alberta	100%
Leyen Oilwell Servicing Ltd.	Saskatchewan	100%
Tri-City Drilling (1968) Ltd.	Alberta	100%
Caza Drilling Inc.	Colorado	100%

Recent Acquisitions

August 23, 1996 – Acquired 19 operable drilling rigs based in the Rocky Mountain region of the United States from Kenting Apollo Drilling, Inc.

September 3, 1996 – Acquired seven well servicing rigs previously owned and operated by K & S Well Servicing Ltd. in the Lloydminster, Alberta area.

October 25, 1996 – Acquired 27 drilling rigs from Simmons Drilling Corp., a private Alberta-based contractor.

November 15, 1996 – Acquired 14 operable drilling rigs, operated by Cardinal Drilling in the Rocky Mountain region of the United States, from Lynx Energy Services Corp.

February 25, 1997 – Purchased Rotation Well Servicing Ltd., which owned and operated four well servicing rigs in western Canada.

March 10, 1997 – Acquired five drilling rigs in Canada from Viper Drilling (1984) Ltd.

June 2, 1997 – Acquired one well servicing rig in Canada from Twilite Well Servicing Ltd.

August 6, 1997 – Acquired one well servicing rig in Canada from J & J Koch Holdings Ltd.

August 7, 1997 – Acquired two well servicing rigs in Canada from Starwell Servicing Ltd.

November 1, 1997 – Acquired three well servicing rigs in Canada from G & W Well Servicing Ltd.

Description of the Business

All of the Company's revenue is derived from the provision of contract drilling and well servicing services supplied through five divisions, which include the subsidiaries listed previously. The following identifies the principal operating divisions of the Company and their fleet size as at March 31, 1998:

Division	Fleet Size	Area of Operation
Ensign Drilling	73 drilling rigs	Western Canada
Tri-City Drilling	30 drilling rigs	Western Canada
Rockwell Servicing	51 well servicing rigs	Western Canada
Leyen Oilwell Servicing	45 well servicing rigs	Western Canada
Caza Drilling	46 drilling rigs	Rocky Mountain region, United States

Rockwell Servicing and Leyen Oilwell Servicing carry on business jointly through the Ensign Servicing Partnership.

Seasonality

The oil and natural gas drilling and, to a lesser extent, the well servicing industry are subject to a degree of seasonality. Canadian operating activities within the industry are generally lower in April and May, during spring break-up. Activity tends to increase in the fall and peaks during the winter months of December through to March. United States operating activities tend to be lowest in the first quarter and build through the remainder of the year.

Ensign Drilling and Tri-City Drilling

The Company's Canadian drilling divisions operate a combined fleet of 103 drilling rigs throughout the Western Canadian Sedimentary Basin. The composition of the rig fleet encompasses all drilling requirements from the shallow depth range to the deep oil and natural gas drilling requirements of the foothills region of the Rocky Mountains. Additionally, the Company has acquired a level of expertise in specialty drilling areas. Ensign Drilling has developed a leadership role in the area of horizontal drilling, including under-balanced drilling and the horizontal re-entry of existing wells. Over the past five years, the Company has continued accumulating expertise and equipment such that it is capable of operating over 60 drilling rigs in the horizontal market, which traditionally has provided better returns than conventional drilling.

Operations for Ensign Drilling are based out of its office and shop facility located in Nisku, Alberta. During the peak of activity in the winter months, Ensign Drilling employs approximately 1,600 people.

Tri-City Drilling, which concentrates on the drilling of shallow to intermediate oil and gas wells, operates out of an office and shop facility in Edmonton, Alberta. During peak periods, Tri-City Drilling employs approximately 600 people.

Drilling services are conducted on a contract basis. Drilling contracts are awarded through either competitive bids or negotiation. The majority of the Company's drilling contracts are carried out on a daywork basis where specified drilling services are provided for a fixed charge per day regardless of the number of days required to complete the well. The Company is obliged to provide the drilling rig and crews necessary to perform the contract. Accordingly, all operating crews' wages and certain operating and maintenance costs are the responsibility of the Company in completing the contract.

Rockwell Servicing and Leyen Oilwell Servicing

The Company's oil and natural gas well servicing divisions operate a combined fleet of 96 well servicing rigs. Both divisions provide shallow to deep well servicing activities to oil and natural gas producers. Well servicing work is usually performed on a "call up" basis and is not generally subject to contractual arrangements. The amount charged is based on an agreed-to rate per hour which is subject to the type of rig and nature of the service to be performed.

Rockwell Servicing operates 51 well servicing rigs and provides well servicing throughout Alberta and parts of western Saskatchewan through its operating stations located in Ardmore, Brooks, Grande Prairie and Red Deer, Alberta. Rockwell Servicing has earned recognition in the servicing of slant heavy oil wells and currently operates 10 of 35 available slant service rigs. During periods of peak activity, Rockwell Servicing employs approximately 450 people.

The Leyen Oilwell Servicing division operates 45 well servicing rigs out of its office and shop facility located in Lloydminster, Alberta . The majority of Leyen Oilwell Servicing's work is performed in the Lloydminster area. During peak months, this division employs approximately 300 people.

Caza Drilling Inc.

Caza Drilling Inc. operates 46 drilling rigs in the Rocky Mountain region of the United States. Generally speaking, the United States land-based drilling climate lags behind the Canadian market in terms of activity and profitability; however, utilization has recently improved with stronger commodity prices in the Rocky Mountain region. During peak periods of activity, this division employs approximately 800 people.

Competitive Conditions

The oil and natural gas drilling and well servicing activities of the Company are exposed to fluctuating oil and natural gas prices which affect the exploration and development budgets of its customers. Additionally, the Company is subject to legislation governing environmental and safety matters, and to unpredictable and uncontrollable weather patterns which affect the ability to provide contracted services in remote locations.

The oil and natural gas drilling and well servicing industry has seen an increase in activity levels in recent years after a prolonged period of low activity. An indication of activity levels is provided by the number of wells drilled in western Canada over the past several years.

The Company achieved growth through periods of low activity by making strategic acquisitions and increasing market share, particularly in specialty market areas.

Year	1991	1992	1993	1994	1995	1996	1997
Number of wells (Canada)	5,388	4,776	9,398	11,871	11,062	12,695	16,484

Quarterly Financial Information (unaudited)

($000s, except per share data)

	Quarter Ended							
	1997				1996			
	Dec. 31	**Sept. 30**	**Jun. 30**	**Mar. 31**	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Revenue	**153,705**	**141,658**	**96,082**	**126,055**	93,012	59,420	31,065	61,932
Income	**23,637**	**19,693**	**9,481**	**15,224**	9,992	5,828	2,528	7,480
Per Common Share								
– Basic	**1.13**	**0.96**	**0.47**	**0.74**	0.49	0.29	0.12	0.37
– Fully Diluted	**1.13**	**0.93**	**0.46**	**0.73**	0.49	0.29	0.12	0.36
Cash Flow	**35,369**	**24,763**	**16,073**	**20,511**	14,755	9,995	4,029	9,397
Per Common Share								
– Basic	**1.70**	**1.20**	**0.79**	**1.00**	0.73	0.49	0.20	0.46
– Fully Diluted	**1.67**	**1.17**	**0.76**	**0.97**	0.71	0.47	0.20	0.45

The quarterly information reflects the seasonality of the Company's business.

Share Trading Summary

For the three months ended	High ($)	Low ($)	Close ($)	Volume	Value ($)
1997					
March 31	**32.00**	**25.00**	**25.50**	**5,116,675**	**144,411,263**
June 30	**33.00**	**24.00**	**32.65**	**2,937,190**	**78,918,949**
September 30	**54.00**	**32.00**	**47.00**	**4,272,042**	**178,740,937**
December 31	**57.00**	**31.60**	**34.60**	**6,770,544**	**294,478,195**
Total				**19,096,451**	**696,549,344**
1996					
March 31	10.50	7.00	10.25	5,688,969	48,449,319
June 30	11.10	9.70	10.00	2,586,033	26,943,601
September 30	14.75	9.35	14.25	6,670,279	85,129,148
December 31	27.00	14.00	25.25	6,693,600	141,068,289
Total				21,638,881	301,590,357

Selected Financial Data

($000s, except per share amounts and ratios)	1997	1996	1995	1994	1993	1992	1991
Revenue	**517,500**	245,429	180,665	174,940	92,715	41,341	33,503
Gross Margin	**158,240**	67,907	46,216	46,606	18,886	8,647	6,515
Gross Margin – % of Revenue	**30.58%**	27.70%	25.58%	26.64%	22.83%	20.92%	19.45%
Depreciation	**12,493**	6,430	4,964	3,412	2,213	1,407	1,375
Net Income	**68,035**	25,828	17,148	19,165	8,258	3,438	1,361
Per Common Share							
– Basic	**3.30**	1.27	0.89	1.06	0.49	0.23	0.10
– Fully Diluted	**3.25**	1.26	0.87	0.95	0.43	0.21	0.09
Cash Flow	**96,716**	38,176	25,985	25,703	13,552	4,709	2,878
Per Common Share							
– Basic	**4.69**	1.88	1.36	1.44	0.82	0.34	0.21
– Fully Diluted	**4.57**	1.83	1.30	1.26	0.71	0.28	0.17
Net Capital Expenditures	**50,437**	83,185	5,580	28,352	6,990	4,850	7,833
Long-term Debt	**36,868**	51,132	7,489	9,954	7,929	9,787	7,961
Shareholders' Equity	**148,592**	84,722	62,009	46,825	27,749	16,948	11,563
Long-term Debt to Equity	**0.2:1**	0.6:1	0.1:1	0.2:1	0.3:1	0.6:1	0.7:1
Weighted Average Common Shares Outstanding	**20,615,674**	20,319,543	19,004,184	17,874,053	16,488,678	13,813,997	13,738,594
Closing Share Price, December 31	**34.60**	25.25	7.00	5.00	5.63	1.45	1.00

Operating Management

Ensign Drilling

Selby Porter
President

Bob Geddes
Vice President and General Manager

Wayne Kipp
Vice President Operations

Earle Routly
Assistant General Manager

Tom Fellows
Sales and Marketing Director

Rick Simonton
Contracts Manager

Bob Zanusso
Operations Manager

Dave Fyhn
Manager Administration

Paul Meade-Clift
Operations Engineering Manager

Wayde Barker
Manfred Benke
David Surridge
Dale Leitner
Ernie Massner
Rick Mann
Harry Reimchen
Rick Vanee
Dale Wollin
Wayne Zandee
Drilling Superintendents

Rob Wilman
Safety Coordinator

Ralph Cock
Equipment Manager

Hank van Drunen
Shop Manager

Evonne Fredine
Chief Accountant

Cindy Hames
Personnel Manager

Walter Hopf
Field Safety Coordinator

Don Juska
Safety and Training Coordinator

Peri Kimber
Operations Administrator

Jim Campbell
Herb McAleenan
Sales Representatives

Tom Medvedic
Corporate Controller

Kirk Schroter
Divisional Controller

Tom McDonald
Business Manager

Arnet Pachal
Materials Coordinator

Judy Selby
Contracts Administrator

Joe Brlekovich
Maintenance Superintendent

Ron Pettapiece
Senior Operations Engineer

Tri-City Drilling

Alex Racine
President

Rose Marie Kody
General Manager

Hans Jandl
Ian Mossop
Mike Przysiezny
Drilling Superintendents

Marsh Lazarenko
Safety and Training Coordinator

Gerard Tetreau
Personnel

Caza Drilling Inc.

Selby Porter
President

Ed Kautz
Managing Director

Mike Nuss
General Manager,
Operations and Contracts

Tom Schledwitz
General Manager,
Operations and Engineering

Steve Hunt
Controller

Wayne Fisher
Hugh Giberson
Jim McCathron
Jeff Salen
Drilling Managers

Mel Curtis
Drilling Superintendent

Dan Welschmeyer
Safety Coordinator

Larry Lorenz
Equipment Manager

Helen Cardon
Office Manager

Leyen Oilwell Servicing

Glenn Dagenais
President

Bryan Toth
Vice President and General Manager

Darwin Dean
Operations Manager

Art Brunet
Field Safety Coordinator

Vern McKinnon
Shop Manager

Emil Wark
Chief Accountant

Field Superintendents

Barren Graham
Bonnyville

Miles Kosteriva
Kitscoty

Dick Polinsky
Maidstone

Roger Snider
Wainwright

Rockwell Servicing

Glenn Dagenais
President

Bryan Toth
Vice President and General Manager

Lyle Aubin
Operations Manager

Ken McInnis
Marketing Manager

Art Brunet
Field Safety Coordinator

Gord Moug
Wayne Lawson
Pat Sheehan
Derrick Sparks
Sales Representatives

Marguerite Smith
Administrative Coordinator

Station Managers/ Field Superintendents

Jean Beaudoin
Jeff Hallwachs
Ardmore

Lyndon Irving
Brooks

Fred Steward
Grande Prairie

R.J. Toth
Gord Riguidel
Red Deer

Corporate Information

The Ensign Group's year over year growth is attributable to the efforts of our employees.

Directors

Jack Donald
Chief Executive Officer
Parkland Industries Ltd.

N. Murray Edwards◊†*
President
Edco Financial Holdings Ltd.

James B. Howe◊†*
President
Bragg Creek Financial Consultants Ltd.

Donald Jewitt◊†
President
Veteran Resources Inc.

Len Kangas†
Independent Businessman

Selby Porter
President
Ensign Resource Service Group Inc.

John Schroeder◊*
Chief Financial Officer
Parkland Industries Ltd.

George S. Ward
Independent Businessman

Committee Members:
◊ Audit
† Corporate Governance
* Compensation

Management

N. Murray Edwards
Chairman

George S. Ward
Vice Chairman

Selby Porter
President

Glenn Dagenais
Vice President Finance and Chief Financial Officer

Bob Geddes
Vice President and General Manager
Ensign Drilling

Ed Kautz
Managing Director
Caza Drilling

Wayne Kipp
Vice President Operations
Ensign Drilling

Alex Racine
President
Tri-City Drilling

Bryan Toth
Vice President and General Manager
Rockwell Servicing/Leyen Oilwell Servicing

Tom Medvedic
Corporate Controller

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Auditors

Price Waterhouse

Legal Counsel

Burnet, Duckworth & Palmer

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